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CTIA

Building The Wireless Future

Cellular Telecommunications Industry Association

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

August 18, 1999

Ms. Magalie R. Salas
Office of the Secretary
Federal Communications Commission
The Portals
445 Twelfth Street, S.W.
12th Street, Lobby, TW-A325
Washington, D.C. 20554

**Re: Ex Parte Presentation
ET Docket No. 95-18
45 MHz CMRS Spectrum Cap**

Dear Ms. Salas:

On August 17, 1999, the Cellular Telecommunications Industry Association ("CTIA"), represented by Brian F. Fontes, Senior Vice President for Policy and Administration, Randall S. Coleman, Vice President for Regulatory Policy and Law, and Michael F. Altschul, Vice President/General Counsel, met with the following FCC staff members regarding the spectrum cap proceeding: Tom Sugrue, Diane Cornell, David Furth, David Kreeh, Peter Van Leeuwen, and Walter Strack.

CTIA advocated positions set forth in its January 25, 1999, Comments and February 10, 1999, Reply Comments which justify elimination of the 45 MHz CMRS spectrum cap in both urban and rural markets, to be replaced by reliance on the Federal antitrust laws. The parties also discussed the Commission's authority to, on a case-by-case basis, examine the appropriateness of mergers involving the accumulation of additional spectrum under Section 310(d), which involves limitations on license transfers.

A copy of the attached article from the August 16, 1999, edition of RCR was left behind to illustrate the current state of competition in the CMRS market. Pursuant to Section 1.1206 of the Commission's Rules, an original and one copy of this letter and its attachment are being filed with your office.



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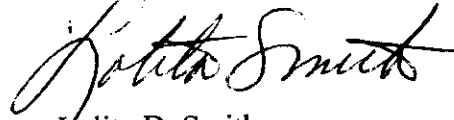
CTIA

Building The Wireless Future..

Cellular Telecommunications Industry Association

If you have any questions concerning this submission, please contact the undersigned.

Sincerely,



Lolita D. Smith



■ *ARPUs stabilize*

PCS troupe closing the gap on cellular

BY LYNNETTE LUNA

The economy is rolling along, wireless subscriber additions are climbing and merger and acquisition activity is heating up.

This is good news for the personal communications services industry, which last year found itself suffering from tight financing and a general underperformance in small capitalized stocks. U.S. pure-play PCS companies together lost about 12 percent of their value in 1998, while cellular companies masked the loss and led growth, providing a 65-percent return to investors in 1998, according to financial firm Bear, Stearns & Co. Inc.

Today, investors are seeing stocks in the entire wireless sector increase by about 80 percent since the beginning of 1999, said Perry Walter, wireless analyst with Robinson Humphrey Co. in Atlanta. Omnipoint Corp.'s stock has increased by about 360 percent since the beginning of the year, while VoiceStream Wireless' stock has jumped about 238 percent, taking into account its spinoff from Western Wireless Corp. earlier this year. Powertel Inc. and Sprint PCS have seen their stock strengthen by about 171 percent and 162 percent respectively, ac-

cording to Walter.

"We're seeing stronger growth in net additions, general heating up in the M&A environment and the general feeling that churn rates are more reasonable now," said Walter. "We're also seeing some ARPU's (average revenue per unit) stabilize."

And investor interest in the PCS industry should only increase.

PCS operators, for the first time, are beginning to grab the lion's share of customers. David Freedman, analyst with Bears Stearns, projects PCS operators will add about 8 million customers during 1999, a 60-percent increase from the previous year. He estimates PCS operators, including AT&T Wireless Services Inc. and Bell South Mobility DCS, added about 1.56 million customers during the second quarter, while cellular operators his company covers added about 1.4 million customers.

Sprint PCS continues to lead the wireless industry in net additions since the fourth quarter. The nationwide operator, trading higher than its pure-play PCS peers, said during its recent conference call it is on track to add about 3 million customers before 1999 closes, ending the year with about 7 million customers.

"Our fundamentals are strong, and the market likes good solid

cash flow businesses that have subscription-based revenues," said Andrew Sukawaty, president of Sprint PCS. "With accelerated growth, it makes that profile an even stronger one."

Sukawaty noted that PCS carriers have an advantage over cellular operators in network capacity, which will become more evident as minutes of use continue to skyrocket.

"Not only are users growing, but so are the number of minutes. There's a much more dramatic growth in minutes than in users," said Sukawaty. "This is holding true in the biggest markets. Already, we're seeing signs of creeping from cellular carriers trying to convert to digital as their cellular systems get loaded."

But the secret for success of PCS operators, say analysts, is to become EBITDA positive, which represents operating loss before stock-based compensation, depreciation and amortization. EBITDA is considered by many financial analysts to be an indicator of a company's future profitability, and positive EBITDA should relieve investor concerns regarding access to capital for PCS companies. Historically, companies that reach break-even EBITDA attract much more investor attention, said Freedman.

"PCS operators are still a year to a year-and-a-half away from generating positive EBITDA because they are still in the big initial ramp up of expenditures for networks," said Walter. "Most companies will reach this mid- to late-2000. From there, margins will improve."

Sprint PCS said it's on target to reach break-even EBITDA by next year. The company's EBITDA losses have been improving by about



Sukawaty

\$120 million per quarter. Some analysts believe Powertel may reach positive EBITDA by the first quarter 2000 as the company continues to post solid subscriber growth that would offset cash operating expenses.

"The results of the second quarter were strong on subscriber growth and ARPU," said Freedman. "The fact that ARPU's were strong gives me greater confidence that these companies will reach EBITDA positive quickly."

However, a large increase in wireless service demand could cause a jump in capital expenditures and the need to continue aggressively expanding services. This could delay moves toward positive EBITDA, caution analysts. And the cost of implementing third-generation networks may begin to affect spending as early as 2000 or 2001, though neither manufacturers nor operators have detailed what the costs of 3G will be, said Freedman.

PCS stocks also should continue to drive up as consolidation takes hold in the sector. Economies of scale, cost, revenue generation, purchasing power and customer

expectations are driving alliances, and companies considering buys are less afraid of PCS carriers, which in the past have posted large churn rates.

VoiceStream and Omnipoint have begun the consolidation process, announcing plans to merge in the fourth quarter under a \$1.7 billion agreement. Analysts consider Powertel, with its strong financial fundamentals and contiguous footprint in the Southeast, as the next candidate. Powertel stock jumped 30 percent on news of the VoiceStream-Omnipoint merger and continues to trade in this range.

Telephone and Data Systems Inc. is trying to spin off struggling Aerial Communications Inc. and may be more willing to sell the company outright since progress of the spinoff has slowed, primarily because of squabbles with stakeholder Finnish operator Sonera Corp. TDS has been looking to rid itself from troublesome Aerial for more than a year and pursued a spinoff when it was unable to come up with a tracking stock that offered a reasonable valuation.

"You are seeing that being national is becoming a bigger issue for customers," said Sukawaty.

AT&T Wireless Services Inc. and other national players like Sprint PCS and Nextel Communications Inc. have changed the dynamics of the wireless industry, quickly making regional operators less appealing. National players have introduced attractive nationwide one-rate plans, pushing regional carriers to offer similar plans that are not as cost effective for their businesses since they must subsidize more off-network roaming costs.

Smaller players' prospects depend on perspective

BY KRISTEN BECKMAN

In a world of super-sized fast food meals, big-screen televisions and 19-foot sport utility vehicles, being big is often equated with being the best.

The wireless industry is no exception. Consolidation has changed the wireless landscape from one where many companies competed to one where a handful of companies dominate. The driving force behind the consolidation is a push toward having a national presence and providing customers a one-stop shop for all of their telecommunications needs.

Whether or not you believe small PCS players can survive is a matter of perspective.

Mike Clough, chief executive officer of Minneapolis-based Quantum Communications Group Inc., said he believes carriers will have to cover a minimum of 250,000 to 500,000 pops to have a reasonable chance of survival. Clough bought four C-block PCS licenses at auction and later returned three and disaggregated the license he held for Jacksonville, Ill. Rather than throwing money into building out that market, Clough said he wants to sell the license or find some other way to make it part of a bigger operation.

Clough compared the early days of cellular to a boulder rolling down a hill, picking up momentum and crushing every obstacle in its way. Today,

Turn to... consolidation, page 18

Subscriber growth among pure-play PCS carriers

Company	Net adds in 2Q	Total subs as of 2Q	ARPU
Sprint PCS	617,000	4 million	\$54
VoiceStream Wireless	135,900	553,200	\$57.58
Omnipoint Corp.	116,000	594,000	\$49
Powertel Inc.	44,000	382,000	\$48.30
Aerial Communications	15,000	347,000	\$51

A glance at pure-play personal communications services providers shows Sprint on top in total number of subscribers, while VoiceStream had the greatest growth rate, at 24.6 percent for the quarter, and highest average revenue per unit.

Compiled from individual companies' second-quarter earnings reports